Southwest Washington Labor Market News

May 2014

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Monthly Review

"I thought love would always find a way
But I know better now
Got it figured out
It's a perfect world all the same"

Broken Bells, "A Perfect World"

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May 2014 Unemployment Rates	May 2014	Apr. 2014	May 2013
Seasonally Adjusted:			
U.S.	6.3	6.3	7.5
U.S. U-6	12.2	12.3	13.8
Washington	6.1	6.1	7.0
Oregon	6.9	6.8	7.8
Portland Metro	6.3	6.3	7.3
Unadjusted:			
U.S.	6.1	5.9	7.3
Washington	6.1	6.1	7.0
Oregon	6.9	6.8	7.8
Clark	6.6*	6.9	9.5
Cowlitz	8.5	7.7	10.4
Wahkiakum	8.1	7.9	11.8
Portland Metro	6.1	6.2	7.1

*See text. Data will likely be revised upward.

State of the Nation

The big surprise this month was the revised measure of gross domestic product (GDP) for the first quarter of the year. The "advance" estimate which came out April 30 put growth at 0.1 percent, while the second estimate on May 29 came in at -1 percent. The third ("final") estimate released last week stunk up the joint at -2.9 percent. This is a big, recession-type number.

Not surprisingly, there were a variety of opinions about how to interpret it. Was it an aberration, due to bad weather this past winter? Are we heading back into recession? Or something in the middle?

To answer the first question: if the weather was to blame (delay in construction projects and consumer spending), then we would be seeing a bounce back this quarter. However, no economic prognosticator is calling for 6 percent growth this quarter, so this explanation doesn't hold water.

To answer the second question: other economic indicators are not flashing red alert warning signals. A look at the attached graphs for the other four major indicators—industrial production, sales, income, and employment—show that the most recent measures of each is going up at a moderate level.

Which leaves us with door number three: we remain stuck in the same warmed-over-oatmeal-of-an-economy we've been in since the "recovery" began, growing fast enough to keep us out of a recession, but too slow to do much to improve the lives of the millions of people who lost their job or had their hours reduced, or just got a degree or certificate and can't find a job.

Investment, comma, lack thereof

Of the four components of GDP, investment has been especially low in this recovery. The immediate reason is that demand is too low. In the bigger picture, one of the hallmarks of a financialized economy is that much of the money that used to be invested in factories, machinery, equipment, or other productive uses now gets diverted into speculating on asset prices—assets such as stocks, bonds, index funds, property, leveraged buyouts, commodity prices, foreign exchange rates, and fancy derivatives like collateral debt obligations (CDOs) and credit default swaps (CDS). When interest rates are low for a prolonged period of time, money managers, looking for higher returns, start taking bigger risks. This was part of the story back in 2003, when Wall Street discovered subprime mortgages.

Today the rage is collateralized loan obligations—CLOs—bundles of highly-leveraged debt that result from when private equity firms borrow money to buy and restructure corporations (aka "leveraged buyouts"). Some of these buyouts are on the up-and-up—the goal of the buyer is to return the corporation to profitability through better management (this appears to be the case, for example, with Longview Fibre). In all too many cases, the goal of the buyer is to extract whatever value it can from the corporation by charging large management fees, followed by downsizing, slashing of wages and benefits, a fire sale of assets, followed by a spinoff of what's left of the business. Fattened by fees, the private equity firm moves on to the next acquisition. CLOs are now at all-time highs, and the Securities and Exchange Commission (SEC) is investigating whether a number of these deals are being illegally structured and fraudulently priced.

This speculation in fancy financial assets invariably comes to a bad end—the bubble will burst—when speculators bid up the price of the assets well beyond their actual value. That's what happened with housing this past decade. Where and when will it happen next?

Cognitive dissonance

Millions of people are unemployed, millions more have withdrawn from the labor force, yet surveys show that businesses report that they can't find qualified employees—the so-called "skills gap." We have lots of unemployed workers; they just don't have the right skills. How can this be? Human resource guru Peter Cappelli has written a great little book—Why Good People Can't Get Jobs—that explains this conundrum. Cappelli starts by debunking myths about both the demand and supply of workers. He concludes that there is no significant skills gap; in analyzing the data, he finds:

- "The hardest-to-fill jobs are those that often require the least skills" (page 39);
- "Employers are frequently unwilling to offer the wages necessary to attract the skill set they seek" (page 39);
- Employers often ask for knowledge and experience that is unavailable to many otherwise-capable candidates, and so greatly narrow the pool of eligible workers;
- Many potential candidates are unwilling to risk relocation when job security is so weak.
- Criticisms of younger workers lacking "soft skills" have been consistent for decades—so "it's hard to walk away with the sense that today's job seekers are critically and uniquely unemployable" (page 43).
- Test score analysis shows that if anything, public schools are doing a better job of educating children than they were several decades ago—the biggest challenge is educating the growing number of students in poverty. The achievement gap starts before kindergarten.
- The U.S. has plenty of college graduates, but the relatively low completion rate of those who start college is a big waste of resources.
- The shortage of college graduates in some areas (such as information technology) has its roots in the fast pace of innovation which drives spurts in demand for specialized skills that are impossible for students and colleges to predict ahead of time. "To expect schools and students to guess what skills your company will need in the future is plain and simply bad business" (page 53). Many high tech companies expect the labor market to provide them with exactly what they need at this moment, without investing in training and developing their current employees.

Cappelli faults the hiring process used by many corporations, and especially the misuse of software as a screening tool. There's the story of a business that wouldn't hire the temp worker who was quite capably filling a job, because the worker didn't pass the company's online personality test.

Instead of a *skills* gap, Cappelli believes we have a *training* gap: too many businesses invest too little in their employees. Businesses often fail to realize the costs of leaving vacancies open because they can't find the perfect candidate. Investing in training programs for their current employees and apprenticeship programs for future employees would end up saving them money in the future. That would require a longer-term outlook that is all too rare these days.

“I can’t hear you, the call is breaking up…”

Two consumer pet peeves in the U.S. are cell phones and cable companies. Barry Ritholtz takes on the first by asking, “Why Does U.S. Cell Phone Service Stink?” Ritholtz notes that in a number of European countries, service is much better at half the cost (it’s not just health care!). Not only are the usual suspects better—Scandinavia and The Netherlands—but also “the U.S. ranks behind Bulgaria and Latvia in terms of Internet speed and bandwidth availability.”

Ritholtz blames deregulation that lacked minimum service standards to protect consumers; lack of competition; and corruption—telecom companies are some of the biggest political contributors. “The U.S. has less competition, little price regulation and no minimum quality requirements. Is it any wonder our telecom infrastructure is consistently ranked lowest by consumers of any country in the developed world? Better and cheaper, why would we want that?”

And speaking of lack of competition—along with financialization, one of the major causes of the rise of the 1 percent and the stagnation of wages over the past several decades—there is the pending merger of two cable companies, Comcast and Time Warner and the national debate over net neutrality. As usual, the best explanation of these important issues comes not from an economist, but from a comedian: if you haven’t yet watched John Oliver on this issue, drop everything and go here, immediately. For a cheap laugh at the expense of an economist (that’s what we’re here for), contrast economist Tyler Cowen’s views on the proposed merger—‘Comcast and Time Warner don’t compete with each other, so what’s the big deal?’—with Oliver’s—‘of course they don’t compete, they’re like drug lords that carve up the territory.’

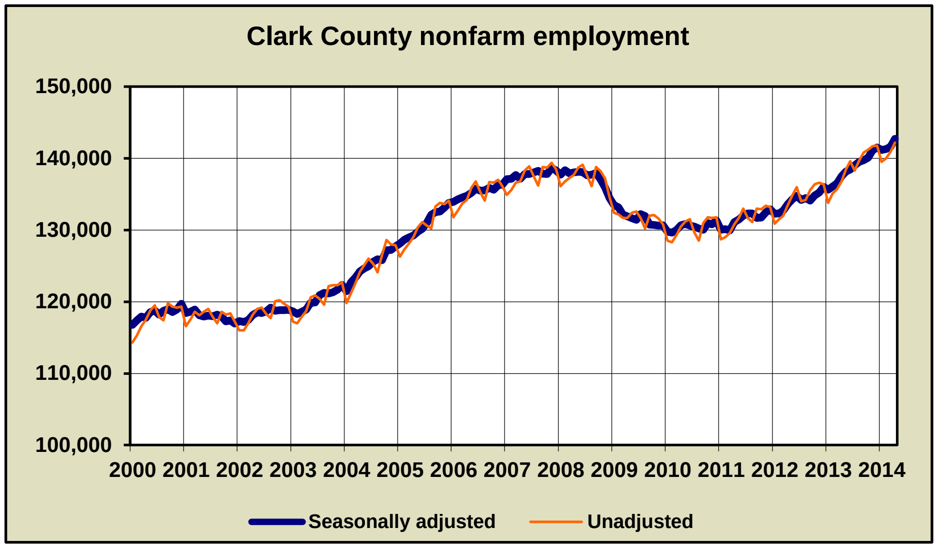
State of the States—and PDX

- Washington employers added 4,000 jobs in May, following an upwardly revised 8,900 gain in April. Over-the-year growth increased again, reaching 2.7 percent. Manufacturing lost jobs in May, the third loss in a row, but is still positive (barely) over the year. Unemployment stayed put at 6.1 percent.
- Oregon had another good month, adding 4,200 jobs in May. Over-the-year job growth came to 2.5 percent. The official unemployment rate of 6.9 percent was little changed over the month.
- In May, Portland Metro area employment was up only 1,000 jobs on a seasonally-adjusted basis. Over-the-year growth was still a solid 2.9 percent rate in the past year. Construction was still hot, finance and government were cool, and every other sector was doing quite well.

Regional Roundup

All three counties in the region have solid employment growth over the past year. The latest data (fourth quarter 2013) for taxable retail sales were positive for Clark County, but sales went sideways in Cowlitz County. Housing permits through April in Clark County were a bit slower than last year for apartments, but close to identical for single-family homes. Home construction was still well below the norm for the 1997-2006 period. Housing prices in the Portland Metro area were still rising earlier this spring. (See attached charts.)

Clark County



Clark County's labor market continued its hot streak in May. Preliminary estimates showed the county added over 600 jobs on a seasonally-adjusted basis. Gains came exclusively in the service sector: retail trade (+200), professional & business services (+100), health care & social assistance (+100), leisure & hospitality (+100), and government (+100). Unadjusted employment was up 1,400 jobs. Construction payrolls added 300 jobs, as did trade, transportation & utilities. Three industries gained 200 jobs each: education & health services, leisure & hospitality and government

Over the year:

- Job growth over the year was 5,100, or 3.7 percent. Comparison rates: U.S., 1.7 percent; state of Washington, 2.5 percent; state of Oregon, 2.6 percent, Portland Metro, 2.9 percent.

All but two sectors have added jobs with at least a 2 percent growth rate this past year. The two exceptions were manufacturing (-100 jobs) and government (no change, held back by a loss of 200 state government jobs).

The hottest of hot: construction (900 jobs, 10 percent), information services (200 jobs, 8 percent), professional & business services (1,200 jobs, 7 percent), and education & health services (1,400 jobs, 6 percent).Trade, transportation & utilities has had a lot of hiring (+800 jobs) but at a slower pace (3 percent).

When the recession started back in November 2007, the county had 138,700 jobs. Since then:

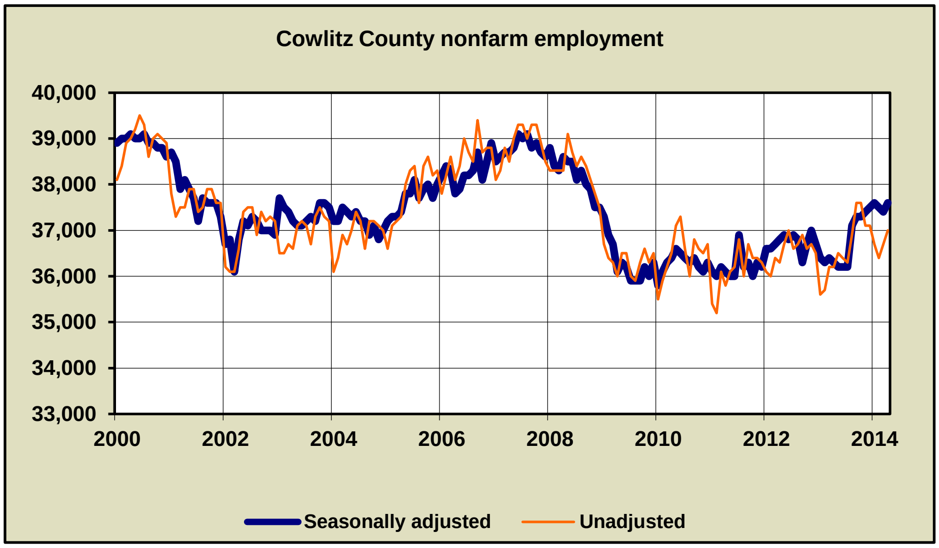
- The total job count has increased by 4,700.
- The county has 2,800 fewer construction jobs, 900 fewer manufacturing jobs, and 4,100 more jobs in health care and social assistance. Of those 4,100, most (2,500) were in health care, and of the 1,600 increased jobs in social assistance, almost all were family caretakers.

The preliminary April unemployment rate of 6.3 percent was revised upward by 0.6 points to 6.9 percent. The May preliminary rate of 6.6 percent will likely be revised upward as well. These monthly upward revisions will likely get smaller as the labor market improves.

Some perspective: the unemployment rate was right around 6 percent in mid-2008, when the recession was underway but before the bottom dropped out in September. That labor market did not have the huge number of dropouts as the current one.

Initial and continued unemployment claims showed little change over the month outside of normal seasonal trends.

Cowlitz County



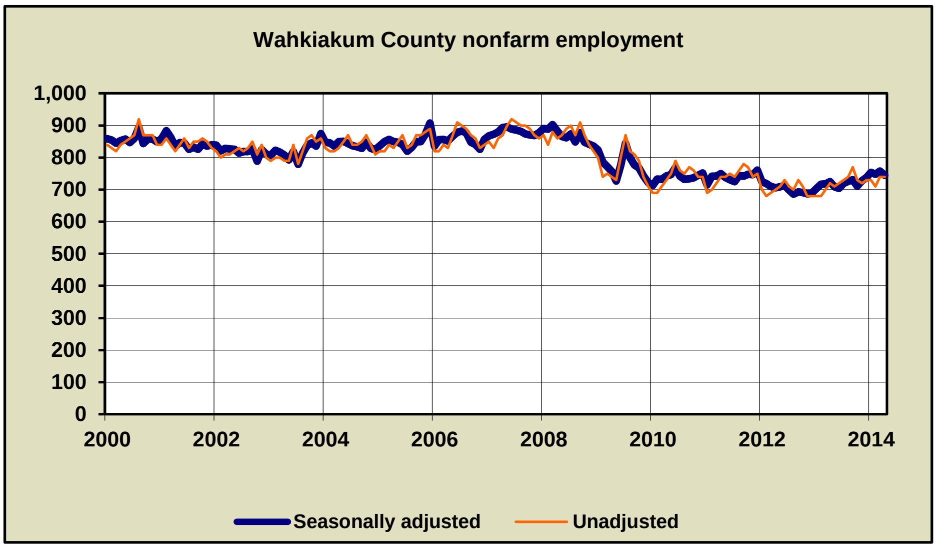
According to newly-revised estimates prepared by the federal government, Cowlitz County employment declined by 100 jobs in May on a seasonally-adjusted basis.

Unadjusted employment rose by 200 jobs, including 100 in leisure & hospitality and 100 in other services. The total of 37,200 jobs was 1,000 jobs (2.8 percent) higher than last May.

The local economy has added 300 jobs in construction and another 100 in manufacturing over the past year. Of the 700 new service sector jobs, 400 were in leisure & hospitality. Both education & health services and government were 100 jobs below last May.

The unemployment rate, which declined by an unusually large amount in April, yo-yoed upward in May, rising from 7.7 percent to 8.5 percent. The rate was almost two points lower than the 10.4 percent from a year earlier. Both initial unemployment claims and continued claims remained stable at low levels.

Wahkiakum County



Wahkiakum County nonfarm employment remained at 740 jobs in May, the same as in March and April. Employment was 30 more than a year earlier.

Unemployment was estimated at 8.1 percent, almost four points lower than the 11.8 percent from the previous May. Continued unemployment claims were little changed over the month on a seasonally-adjusted basis, while only a handful of initial claims were filed.